

APPLE VALLEY UNIFIED
SCHOOL DISTRICT
COUNTY OF SAN BERNARDINO
APPLE VALLEY, CALIFORNIA

AUDIT REPORT
June 30, 2008

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APPLE VALLEY UNIFIED SCHOOL DISTRICT
AUDIT REPORT
June 30, 2008

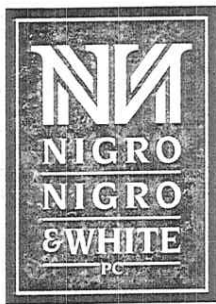
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APPLE VALLEY UNIFIED SCHOOL DISTRICT
AUDIT REPORT
June 30, 2008

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A Professional
Accountancy Corporation

Board of Trustees
Apple Valley Unified School District
Apple Valley, California

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Apple Valley Unified School District, as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Apple Valley Unified School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Apple Valley Unified School District as of June 30, 2008, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2008 on our consideration of the Apple Valley Unified School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 11 and budgetary comparison information on page 43 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements of Apple Valley Unified School District's, basic financial statements. The other supplementary information listed in the table of contents, including the Schedule of Expenditures of Federal Awards, which is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Njira Njira & White, PC

Murrieta, California
November 12, 2008

Management's Discussion and Analysis

APPLE VALLEY UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2008

This discussion and analysis of Apple Valley Unified School District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2008. Please read it in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

- The District's overall financial status improved from last year, as the net assets grew by \$9.0 million, or 8.2%.
- Total governmental revenues were \$129.1 million, about \$9.0 million more than expenses.
- The total cost of basic programs was \$120.1 million. Because a portion of these costs were paid for with charges, fees, and intergovernmental aid, the net cost that required taxpayer funding was only \$84.6 million.
- The District's combined fund balances increased by \$2.3 million, primarily due to an increase of federal and state funding.
- Average daily attendance (grades K-12) declined by 122, or -0.9%.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

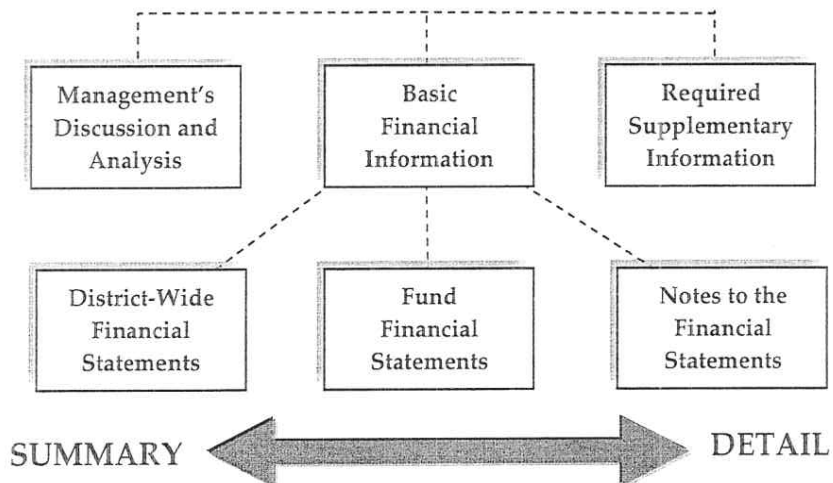
- The first two statements are district-wide financial statements that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements.
 - The *governmental funds* statements tell how basic services like regular and special education were financed in the short term as well as what remains for future spending.
 - *Fiduciary funds* statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others to whom the resources belong.

APPLE VALLEY UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2008

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

Figure A-1. Organization of Apple Valley Unified School District's Annual Financial Report



APPLE VALLEY UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2008

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2. Major Features of the District-Wide and Fund Financial Statements

Type of Statements	District-Wide	Governmental Funds	Fiduciary Funds
<i>Scope</i>	Entire district, except fiduciary activities	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
<i>Required financial statements</i>	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of Activities 	<ul style="list-style-type: none"> • Balance Sheet • Statement of Revenues, Expenditures & Changes in Fund Balances 	<ul style="list-style-type: none"> • Statement of Fiduciary Net Assets • Statement of Changes in Fiduciary Net Assets
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
<i>Type of asset/liability information</i>	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both short-term and long-term; The district's funds do not currently contain nonfinancial assets, though they can
<i>Type of inflow/outflow information</i>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

District-wide Statements

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two district-wide statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – is one way to measure the District's financial health or position.

APPLE VALLEY UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2008

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

- Over time, increases and decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating.
- To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.
- In the district-wide financial statements, the District's activities are categorized as *Governmental Activities*. Most of the District's basic services are included here, such as regular and special education, transportation, and administration. Property taxes and state formula aid finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (like repaying its long-term debt) or to show that it is properly using certain revenues (like Federal grants).

The District has two kinds of funds:

- *Governmental funds* – Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information at the bottom of the governmental funds statements that explain the relationship (or differences) between them.
- *Fiduciary funds* – The District is the trustee, or fiduciary, for assets that belong to others, such as the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

APPLE VALLEY UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2008

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Assets. The District's combined net assets were \$119,351,410. (See Table A-1.)

Table A-1.

	Governmental Activities		Variance
	(In millions)		Increase
	2008	2007	(Decrease)
Current and other assets	\$ 48.2	\$ 46.5	\$ 1.7
Capital assets	126.7	121.2	5.5
Total assets	174.9	167.7	7.2
Other liabilities	9.9	46.9	(37.0)
Long-term debt outstanding	45.6	10.5	35.1
Total liabilities	55.5	57.4	(1.9)
Net assets			
Invested in capital assets, net of related debt	86.4	82.5	3.9
Restricted	20.6	20.8	(0.2)
Unrestricted	12.3	7.0	5.3
Total net assets	\$ 119.4	\$ 110.3	\$ 9.1

Changes in net assets, governmental activities. The District's total revenues were \$129.1 million (See Table A-2). This is an increase, which is primarily due to an increase in federal and state aid.

The total cost of all programs and services was \$120.1 million. The District's expenses are predominantly related to educating and caring for students, 78%. The purely administrative activities of the District accounted for just 4.9% of total costs.

Table A-2.

	Governmental Activities		Variance
	(In millions)		Increase
	2008	2007	(Decrease)
Total Revenues	\$ 129.1	\$ 126.5	\$ 2.6
Total Expenses	120.1	116.0	4.1
Increase (decrease) in net assets	\$ 9.0	\$ 10.5	\$ (1.5)

APPLE VALLEY UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2008

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed this year, its governmental funds reported a combined fund balance of \$38.5 million, an increase from last year's ending fund balance of \$36.2 million. The increase is primarily due to a Revenue Limit COLA of \$252 per ADA received in 2007-08.

General Fund Budgetary Highlights

Over the course of the year, the District revised the annual operating budget several times. The major budget amendments fall into these categories:

- Revenues – increased by \$2.2 million primarily to reflect federal and state budget actions
- Salaries and benefits costs – increased \$1.3 million with increased benefits costs and with new positions added for enrollment growth
- Other non-capital expenses – increased \$6.8 million to re-budget carryover funds and revise operational cost estimates

While the District's final budget for the general fund anticipated revenues would fall short of expenditures by about \$6.7 million, the actual results for the year show that revenues actually exceeded expenditures by roughly \$6.0 million. Actual revenues were \$1.6 million more than anticipated, and expenditures were \$11.2 million less than budgeted. That amount consists primarily of restricted categorical program dollars that were not spent as of June 30, 2008 that will be carried over into the 2008-09 budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2007-08 the District had invested \$10.4 million in new capital assets. (More detailed information about capital assets can be found in Note 5 to the financial statements.) Total depreciation expense for the year was \$4.6 million.

APPLE VALLEY UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2008

CAPITAL ASSET AND DEBT ADMINISTRATION (continued)

Table A-3: Capital Assets at Year-End, net of depreciation

	Governmental Activities (In millions)		Variance Increase (Decrease)
	2008	2007	
Land	\$ 4.3	\$ 4.3	\$ 0.0
Site improvements	3.3	3.6	(0.3)
Buildings and improvements	113.7	96.9	16.8
Machinery and equipment	2.6	2.7	(0.1)
Work in process	2.8	13.7	(10.9)
Total	<u>\$ 126.7</u>	<u>\$ 121.2</u>	<u>\$ 5.5</u>

The District's fiscal year 2008-09 capital budget projects spending another \$4.9 million for capital projects, principally for classroom and restroom facilities at Rancho Verde and Mojave Mesa Elementary Schools, restroom facilities at Rio Vista Elementary School, Career Tech Education classrooms at Apple Valley High School, kindergarten facilities at Rancho Verde Elementary School and video security systems at Apple Valley High School and Granite Hills High School.

Long-Term Debt

At year-end the District had \$45.6 million in long-term liabilities – a decrease from last year – as shown in Table A-4. (More detailed information about the District's long-term liabilities is presented in Note 8 to the financial statements.)

Table A-4: Outstanding Long-Term Debt at Year-End

	Governmental Activities (In millions)		Variance Increase (Decrease)
	2008	2007	
General obligation bonds	\$ 36.5	\$ 36.7	\$ (0.2)
Certificates of participation	6.0	6.3	(0.3)
Capital leases	0.1	0.2	(0.1)
Compensated absences	0.6	0.7	(0.1)
Retirement benefits	2.5	3.0	(0.5)
Total	<u>\$ 45.7</u>	<u>\$ 46.9</u>	<u>\$ (1.2)</u>

APPLE VALLEY UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2008

FACTORS BEARING ON THE DISTRICT'S FUTURE

On September 23, 2008, Governor Schwarzenegger signed the 2008-09 Budget, ending the longest budget stalemate in California's history. The final spending plan includes \$24.0 billion of "solutions", including \$10.3 billion in spending cuts, \$9.6 billion in revenue-related provisions, and \$4.0 billion in borrowing.

The final budget agreement includes:

- A total of \$10.3 billion in spending reductions, including \$3.3 billion in cuts to "base" K-14 education spending.
- Changes to the budget process that would substantially increase the size of the state's reserve and limit the use of future revenues that exceed anticipated levels. The agreement also would give governors vast new power to unilaterally reduce spending midway through the budget year.
- Assumes that the state will issue bonds backed by lottery proceeds in 2009-10. The budget agreement includes provisions aimed at doubling the amount Californians spend on lottery purchases and would replace schools' allocation from lottery proceeds with a General Fund appropriation equivalent to the amount allocated to education from the lottery in 2008-09. The General Fund allocation for education would increase over time based on enrollment and per capita personal income growth.
- A one-time shift of \$350 million in property tax revenues from redevelopment agencies to schools and a commensurate reduction in state General Fund support for schools and community colleges.

As signed by the Governor, the 2008-09 Budget provides \$58.1 billion in funding for K-14 education programs under the Proposition 98 guarantee. The Budget reduces "base" K-14 education spending by \$3.3 billion.

The 2008-09 Budget and related legislation:

- Provide a 0.68 percent COLA to fund revenue limits for school districts and county offices of education, which is below the 5.66 percent statutory COLA and the 2.12 percent COLA proposed by the Conference Committee. The 2008-09 Budget does not provide a COLA for categorical programs, such as class size reduction and instructional materials.
- Does not provide \$150 million in 2008-09 Proposition 98 "settle-up" funds needed to meet prior-year Proposition 98 obligations.
- Proposed to modify Proposition 49, the After School Education and Safety Program (ASES) Act, by submitting a ballot measure to voters in November 2008. However, the Governor vetoed the bill that would have submitted the measure to voters. The measure would have removed Proposition 49's minimum funding level of \$550 million and would have allowed annual ASES budgeting decisions to be made by the Legislature.

APPLE VALLEY UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2008

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the District's Business Office at (760) 247-8001.

Financial Section

APPLE VALLEY UNIFIED SCHOOL DISTRICT
Statement of Net Assets
June 30, 2008

	Total Governmental Activities
ASSETS	
Cash	\$ 36,621,188
Investments	577,741
Accounts receivable	10,286,886
Stores inventories	175,849
Prepaid expenses	528,215
Total current assets	<u>48,189,879</u>
Capital assets:	
Land	4,320,823
Improvement of sites	13,681,126
Buildings	141,681,744
Furniture and equipment	11,411,971
Work in progress	2,799,773
Less accumulated depreciation	(47,206,852)
Total noncurrent assets	<u>126,688,585</u>
Total assets	<u>\$ 174,878,464</u>
LIABILITIES	
Accounts payable and current liabilities	\$ 9,146,158
Deferred revenues	725,621
Long-term liabilities:	
Portion due or payable within one year	1,109,142
Portion due or payable after one year	44,546,133
Total liabilities	<u>55,527,054</u>
NET ASSETS	
Invested in capital assets, net of related debt	86,430,274
Restricted for:	
Capital projects	9,888,424
Debt service	2,173,913
Categorical programs	8,552,723
Unrestricted	<u>12,306,076</u>
Total Net Assets	<u>\$ 119,351,410</u>

The notes to the financial statements are an integral part of this statement.

APPLE VALLEY UNIFIED SCHOOL DISTRICT
Statement of Activities
For the Year Ended June 30, 2008

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
					Governmental Activities
Instruction	\$ 71,611,733	\$ 663,074	\$ 15,590,617	\$ 4,307,103	\$ (51,050,939)
Instruction-Related Services:					
Supervision of instruction	2,168,246	-	1,433,668	-	(734,578)
Instructional library, media and technology	714,136	-	(270)	-	(714,406)
School site administration	6,826,775	-	699,122	-	(6,127,653)
Pupil Services:					
Home-to-school transportation	3,725,978	-	1,667,492	-	(2,058,486)
Food services	5,027,581	-	5,099,550	-	71,969
All other pupil services	4,182,380	-	652,532	-	(3,529,848)
General Administration:					
Data processing	1,324,504	-	-	-	(1,324,504)
All other general administration	4,504,938	147,781	582,779	-	(3,774,378)
Plant services	12,116,431	-	1,161,372	-	(10,955,059)
Community services	1,392,380	-	1,405,255	-	12,875
Interest on long-term debt	1,670,941	-	-	-	(1,670,941)
Other outgo	203,230	1,125,480	865,550	-	1,787,800
Depreciation (unallocated)	4,581,172	-	-	-	(4,581,172)
Total Governmental Activities	<u>\$ 120,050,425</u>	<u>\$ 1,936,335</u>	<u>\$ 29,157,667</u>	<u>\$ 4,307,103</u>	<u>\$ (84,649,320)</u>
General Revenues:					
Property taxes					12,256,984
Federal and state aid not restricted to specific purposes					79,940,662
Interest and investment earnings					1,080,654
Interagency revenues					19,301
Miscellaneous					388,339
Total general revenues					<u>93,685,940</u>
Change in net assets					9,036,620
Net assets - July 1, 2007					<u>110,314,790</u>
Net assets - June 30, 2008					<u>\$ 119,351,410</u>

The notes to the financial statements are an integral part of this statement.

APPLE VALLEY UNIFIED SCHOOL DISTRICT
Balance Sheet – Governmental Funds
June 30, 2008

	General Fund	Capital Facilities Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS				
Cash	\$ 18,301,774	\$ 6,169,545	\$ 12,149,869	\$ 36,621,188
Investments	-	577,741	-	577,741
Accounts receivable	9,375,212	62,714	848,960	10,286,886
Due from other funds	174,073	189,646	1,995	365,714
Stores inventories	121,689	-	54,160	175,849
Prepaid expenditures	49,770	-	-	49,770
Total Assets	<u>\$ 28,022,518</u>	<u>\$ 6,999,646</u>	<u>\$ 13,054,984</u>	<u>\$ 48,077,148</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 6,744,108	\$ 11,699	\$ 1,697,372	\$ 8,453,179
Due to other funds	6,088	-	359,626	365,714
Deferred revenue	486,049	-	239,572	725,621
Total Liabilities	<u>7,236,245</u>	<u>11,699</u>	<u>2,296,570</u>	<u>9,544,514</u>
Fund Balances				
Reserved for:				
Revolving cash	40,000	-	15,000	55,000
Stores inventories	121,689	-	54,160	175,849
Prepaid expenditures	49,770	-	-	49,770
Debt service	-	-	2,173,913	2,173,913
Legally restricted balance	8,552,723	-	-	8,552,723
Unreserved, reported in:				
General fund	12,022,091	-	-	12,022,091
Special revenue funds	-	-	3,347,016	3,347,016
Capital project funds	-	6,987,947	5,168,325	12,156,272
Total Fund Balances	<u>20,786,273</u>	<u>6,987,947</u>	<u>10,758,414</u>	<u>38,532,634</u>
Total Liabilities and Fund Balances	<u>\$ 28,022,518</u>	<u>\$ 6,999,646</u>	<u>\$ 13,054,984</u>	<u>\$ 48,077,148</u>

The notes to the financial statements are an integral part of this statement.

APPLE VALLEY UNIFIED SCHOOL DISTRICT
Reconciliation of the Governmental Funds Balance Sheet to the
Statement of Net Assets
June 30, 2008

Total fund balances - governmental funds	\$ 38,532,634
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Amounts reported for assets and liabilities for governmental activities in the statement of net assets are different from amount amounts reported in governmental funds because:

Capital Assets: In governmental funds, only current assets are reported. In the statement of net assets, all assets are reported, including capital assets and accumulated depreciation.

Capital Assets relating to governmental activities, at historical cost:	173,895,437	
Accumulated depreciation:	<u>(47,206,852)</u>	126,688,585

Unamortized costs: In governmental funds, debt issue costs are recognized as expenditures in the period they are incurred. In the government-wide statements, debt issue costs are amortized over the life of the debt. Unamortized debt issue costs included in prepaid expense on the statement of net assets are:

478,445

Unmatured interest on long-term debt: In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In the government-wide statement of activities, it is recognized in the period that it is incurred. The additional liability for unamatured interest owing at the end of the period was:

(692,979)

In governmental funds, only current liabilities are reported. In the statement of net assets, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to governmental activities consist of:

General obligation bonds payable	36,449,258	
Certificates of participation payable	5,927,985	
Other postemployment benefits payable	2,533,111	
Compensated absences payable	596,005	
Capital leases payable	<u>148,916</u>	<u>(45,655,275)</u>

Total net assets - governmental activities	<u>\$ 119,351,410</u>
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The notes to the financial statements are an integral part of this statement.

APPLE VALLEY UNIFIED SCHOOL DISTRICT
Statement of Revenues, Expenditures, and Changes in Fund Balances --
Governmental Funds
For the Year Ended June 30, 2008

	General Fund	Capital Facilities Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES				
General Revenues:				
Property taxes	\$ 10,491,765	\$ -	\$ 1,765,219	\$ 12,256,984
Federal and state aid not restricted to specific purpose	79,940,662	-	-	79,940,662
Earnings on investments	767,002	-	313,652	1,080,654
Interagency revenues	19,301	-	-	19,301
Miscellaneous	388,339	-	-	388,339
Program Revenues:				
Charges for services	744,128	1,192,207	-	1,936,335
Operating grants and contributions	21,158,761	288,057	7,710,849	29,157,667
Capital grants and contributions	-	-	4,307,103	4,307,103
Total revenues	113,509,958	1,480,264	14,096,823	129,087,045
EXPENDITURES				
Instructional Services:				
Instruction	72,154,121	-	44,507	72,198,628
Instruction-Related Services:				
Supervision of instruction	2,170,676	-	-	2,170,676
Instructional library, media and technology	714,136	-	-	714,136
School site administration	6,812,857	-	16,168	6,829,025
Pupil Support Services:				
Home-to-school transportation	3,747,379	-	-	3,747,379
Food services	149	-	5,100,772	5,100,921
All other pupil services	4,181,630	-	2,060	4,183,690
General Administration Services:				
Data processing services	1,565,952	-	-	1,565,952
Other general administration	3,979,148	35,766	200,346	4,215,260
Plant services	11,912,711	-	456,887	12,369,598
Facility acquisition and construction	3,737	55,531	9,634,464	9,693,732
Community services	-	-	1,392,380	1,392,380
Other outgo:				
Transfers between agencies	57,013	-	-	57,013
Debt service - principal	111,777	340,000	400,000	851,777
Debt service - interest	10,070	200,928	1,465,834	1,676,832
Debt service - issuance costs	-	3,850	-	3,850
Total Expenditures	107,421,356	636,075	18,713,418	126,770,849
Excess (Deficiency) of Revenues Over (Under) Expenditures	6,088,602	844,189	(4,616,595)	2,316,196
OTHER FINANCING SOURCES (USES)				
Interfund transfers in	-	-	1,809,485	1,809,485
Interfund transfers out	(597,917)	-	(1,211,568)	(1,809,485)
Total Other Financing Sources and Uses	(597,917)	-	597,917	-
Net Change in Fund Balances	5,490,685	844,189	(4,018,678)	2,316,196
Fund Balances, July 1, 2007	15,295,588	6,143,758	14,777,092	36,216,438
Fund Balances, June 30, 2008	\$ 20,786,273	\$ 6,987,947	\$ 10,758,414	\$ 38,532,634

The notes to the financial statements are an integral part of this statement.

APPLE VALLEY UNIFIED SCHOOL DISTRICT
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and
Changes in Fund Balances to the Statement of Activities
For the Year Ended June 30, 2008

Total net change in fund balances - governmental funds \$ 2,316,196

Amounts reported for governmental *activities* in the statement of activities are different because:

In governmental funds, the costs of capital assets are reported as expenditures in the period when the assets are acquired. In the statement of activities, the cost of capital assets are allocated over their estimated useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period is:

Expenditures for capital outlay:	10,321,438	
Depreciation expense:	(4,581,172)	
Net:		5,740,266

Debt service: In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as reduction of liabilities. Expenditures for repayment of the principal portion of long-term debt were:

851,777

In governmental funds, accreted interest on capital appreciation bonds is not recorded as an expenditure from current resources. In the government-wide statement of activities, however, this is recorded as interest expense for the period.

(176,205)

In governmental funds, if debt is issued at a premium or discount, the premium or discount is recognized as an Other Financing Source or an Other Financing Use in the period it is incurred. In the government-wide statements, the premium or discount is amortized as interest over the life of the debt.

Premiums and discounts amortized during the period:	55,586	
Issue costs amortized for the period:	21,748	
		77,334

Gain or loss from disposal of capital assets: In governmental funds, the entire proceeds from disposal of capital assets are reported as revenue. In the statement of activities, only the resulting gain or loss is reported. The difference between the proceeds from disposal of capital assets and the resulting gain or loss is:

(295,678)

In governmental funds, interest on long-term debt is recognized in the period that it becomes due. In the government-wide statement of activities, it is recognized in the period that it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from the prior period, was:

5,891

Compensated absences: In governmental funds, compensated absences are measured by the amount paid during the period. In the statement of activities, compensated absences are measured by the amounts earned. The difference between compensated absences paid and earned were:

12,940

Postemployment benefits other than pensions: In governmental funds, costs are recognized when employer contributions are made. In the statement of activities, costs are measured and recognized in relation to the annual required contribution. The annual required contribution is the normal cost related to the current period plus a calculated amount necessary to systematically amortize any unfunded liability in accordance with generally accepted accounting principles. This year the annual required contribution and amounts actually funded was:

504,099

Change in net assets of governmental activities

\$ 9,036,620

The notes to the financial statements are an integral part of this statement.

APPLE VALLEY UNIFIED SCHOOL DISTRICT
Statement of Fiduciary Net Assets
June 30, 2008

	Student Body Funds
ASSETS	
Cash	\$ 506,820
Inventory	6,251
Total Assets	<u>\$ 513,071</u>
LIABILITIES	
Due to Student Groups	<u>\$ 513,071</u>
Total Liabilities	<u>\$ 513,071</u>

The notes to the financial statements are an integral part of this statement.

APPLE VALLEY UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Accounting Policies

The District accounts for its financial transactions in accordance with the policies and procedures of the Department of Education's *California School Accounting Manual*. The accounting policies of the District conform to generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

B. Reporting Entity

The District operates under a locally elected five-member Board form of government and provides educational services to grades K-12 as mandated by the State. A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments, and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student related activities.

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete. For financial reporting purposes, the component unit discussed below is reported in the District's financial statements because of the significance of its relationship with the District. The component unit, although a legally separate entity, is reported in the financial statements as if it were part of the District's operations because the governing board of the component unit is essentially the same as the governing board of the District and because its purpose is to finance the construction of facilities to be used for the benefit of the District.

Apple Valley Unified School District Public Facilities Corporation

The corporation is a nonprofit, public benefit corporation incorporated under the laws of the State of California and recorded by the Secretary of State in 1990. The corporation was formed for the sole purpose of providing financial assistance to the District by acquiring, constructing, financing, selling and leasing public facilities, land, personal property and equipment for the use and benefit of the District. The District leases certain school facilities from the corporation under a separate lease-purchase agreement.

APPLE VALLEY UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Reporting Entity (continued)

Financial Presentation:

For financial presentation purposes, the component unit's financial activity has been blended, or combined, with the financial data of the District. The financial statements present the financial activity of the Apple Valley Unified School District Financing Corporation within the Capital Facilities Fund. Certificates of Participation issued by the corporation and capital assets acquired or constructed by the component unit are included in the Statement of Net Assets. Separate financial statements for the individual component units are not prepared.

The following are those aspects of the relationship between the District and the component unit which satisfy the criteria of GASB Statement No. 14, as amended by Statement No. 39, *Determining Whether Certain Organizations are Component Units*.

Manifestations of Oversight

- The component unit and the District have common boards.
- The component unit has no employees. The District's Superintendent functions as an agent of the component unit.
- The District exercises significant influence over operations of the component unit as all projects of the component unit involve the Apple Valley Unified School District.

Accountability of Fiscal Matters

- The District is responsible for preparation of the annual budget for the component unit.

Scope of Public Service

- The component unit was created specifically to finance capital improvements for the Apple Valley Unified School District.

C. Basis of Presentation

Government-wide Financial Statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the District.

The government-wide statements are prepared using the economic resources measurement focus.

APPLE VALLEY UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2008

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation (continued)

This is the same approach used in the preparation of the fiduciary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for the governmental funds.

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables, and receivables. All internal balances in the Statement of Net Assets and Statement of Activities have been eliminated, including due to/from other funds and transfers in/out.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. The District does not allocate indirect expenses for depreciation to functions in the statement of activities. Program revenues include charges paid by the recipients of goods or services offered by a program, as well as grants and contributions that are restricted to meet the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District, with certain exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements:

Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major governmental fund is presented in a separate column, and all non-major funds are aggregated into one column. Fiduciary funds are reported by fund type.

The accounting and financial treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balances for these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

Fiduciary funds are reported using the economic resources measurement focus. Fiduciary funds are excluded from the government-wide financial statements because they do not represent resources of the District.

APPLE VALLEY UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds use the accrual basis of accounting.

Revenues – exchange and non-exchange transactions:

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Available" means the resources will be collected within the current fiscal year and are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, "available" means collectible within the current period or within 60 days after year-end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, and entitlements. Under the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from the grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Deferred revenue:

Deferred revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred revenue.

Expenses/expenditures:

On the accrual basis of accounting, expenses are recognized at the time a liability is incurred. On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting.

APPLE VALLEY UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of Accounting (continued)

Expenses/expenditures (continued):

However, under the modified accrual basis of accounting, debt services expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

E. Fund Accounting

The accounts of the District are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity (or retained earnings), revenues, and expenditures or expenses, as appropriate. District resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The District's accounts are organized into major, non-major, and fiduciary funds, as follows:

Major Governmental Funds:

The *General Fund* is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

The *Capital Facilities Fund* is used to account for resources received from developer impact fees assessed under provisions of the California Environmental Quality Act.

APPLE VALLEY UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Fund Accounting (continued)

Non-Major Governmental Funds:

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The District maintains four non-major special revenue funds:

1. The Adult Education Fund is used to account for resources committed to adult education programs maintained by the District.
2. The Child Development Fund is used to account for resources committed to child development programs maintained by the District.
3. The Cafeteria Fund is used to account for revenues received and expenditures made to operate the District's food service operations.
4. The Deferred Maintenance Fund is used for the purpose of major repair or replacement of District property.

Capital Projects Funds are used to account for the acquisition and/or construction of major governmental general fixed assets. The District maintains four non-major capital projects funds.

1. The Building Fund is used to account for the acquisition of major governmental capital facilities and buildings from the sale of general obligation bonds.
2. The County School Facilities Fund is used to account for state apportionments provided under the SB50 School Facilities Program for construction and modernization of school facilities.
3. The Special Reserve Fund (Capital Outlay) is used to accumulate resources for the purpose of capital outlay projects for the District.
4. The Capital Project Fund for Blended Component Units is used to account for capital projects financed by certificates of participation issued by the Apple Valley Unified School District Public Facilities Corporation, which is considered a blended component unit of the District under generally accepted accounting principles (GAAP).

Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs. The District maintains one non-major debt service fund:

1. The Bond Interest and Redemption Fund is used to account for the accumulation of resources for, and the repayment of, District bonds, interest, and related costs.

APPLE VALLEY UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Fund Accounting (continued)

Fiduciary Funds:

Agency Funds are used to account for assets of others for which the District acts as an agent. The District maintains student body funds, which are used to account for the raising and expending of money to promote the general welfare, morale, and educational experience of the student body. The amounts reported for student body funds represent the combined totals of all schools within the District.

F. Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all government funds. By state law, the District's governing board must adopt a budget no later than July 1. A public hearing must be conducted to receive comments prior to adoption. The District's governing board satisfied these requirements.

These budgets are revised by the District's governing board and district superintendent during the year to give consideration to unanticipated income and expenditures. The adopted and final revised budget is presented for the General Fund in the financial statements.

Formal budgetary integration was employed as a management control device during the year for all budgeted funds. The District employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account.

G. Encumbrances

Encumbrance accounting is used in all budgeted funds to reserve portions of applicable appropriations for which commitments have been made. Encumbrances are recorded for purchase orders, contracts, and other commitments when they are written. Encumbrances are liquidated when the commitments are paid. All encumbrances are liquidated as of June 30.

H. Assets, Liabilities, and Equity

1. Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Cash held in the county treasury is recorded at cost, which approximates fair value, in accordance with GASB Statement No. 31.

APPLE VALLEY UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Assets, Liabilities, and Equity (continued)

2. Stores Inventories

Inventories are recorded using the purchases method in that the cost is recorded as an expenditure at the time the individual inventory items are requisitioned. Inventories are valued at average cost and consist of expendable supplies held for consumption. Reported inventories are equally offset by a fund balance reserve, which indicates that these amounts are not "available for appropriation and expenditure" even though they are a component of net current assets.

3. Capital Assets

The accounting and reporting treatment applied to the capital assets associated with a fund is determined by its measurement focus. Capital assets are reported in the governmental activities column of the government-wide statement of net assets, but are not reported in the fund financial statements.

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$5,000. The District does not own any infrastructure as defined in GASB No. 34. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All reported capital assets, except for land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Buildings and Improvements	25-50 years
Furniture and Equipment	15-20 years
Vehicles	8 years

4. Compensated Absences

Accumulated unpaid vacation benefits are accrued as a liability on the government-wide statement of net assets as the benefits are earned. For governmental funds, unpaid compensated absences are recognized as a fund liability only upon the occurrence of relevant events such as employee resignation and retirements that occur prior to year end that have not yet been paid with expendable available financial resources. These amounts are recorded as accounts payable in the fund from which the employees who have accumulated leave are paid.

Accumulated sick leave benefits are not recognized as liabilities of the District. The District's policy is to record sick leave as an operating expense in the period taken because such benefits do not vest, nor is payment probable. Unused sick leave is added to the creditable service period for calculation of retirement benefits when the employee retires.

APPLE VALLEY UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Assets, Liabilities, and Equity (continued)

5. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums and discounts as well as issuance costs are deferred and amortized over the life of the bonds using the effective-interest method. Bonds payable are reported net of applicable bond premium or discount. Bond issuance costs are reported as prepaid expenditures and amortized over the term of the related debt.

In the fund financial statements, governmental funds recognize bond premiums and discounts as well as bond issuance costs, during the current period. The face amount of the debt issued, premiums, or discounts is reported as other financing sources/uses.

6. Fund Balance Reserves and Designations

Reservations of the ending fund balance indicate the portions of the fund balance not appropriable for expenditure or amounts legally segregated for a specific future use. The reserve for revolving fund and reserve for stores inventory reflect the portions of fund balance represented by revolving fund cash and stores inventory, respectively.

These amounts are not available for appropriation and expenditure at the balance sheet date. Designations of the ending fund balance indicate tentative plans for financial resource utilization in a future period.

7. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvements of those assets. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by donors, grantors, or laws or regulations of other governments.

I. Revenue Limit/Property Tax

The District's revenue limit is received from a combination of local property taxes, state apportionments, and other local sources.

The county is responsible for assessing, collecting, and apportioning property taxes. Taxes are levied for each fiscal year on taxable real and personal property in the county. The levy is based on the assessed values as of the preceding March 1, which is also the lien date. Property taxes on the secured roll are due on November 1 and February 1, and taxes become delinquent after December 10 and April 10, respectively. Property taxes on the unsecured roll are due on the lien date (March 1), and become delinquent if unpaid by August 31.

APPLE VALLEY UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2008

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Revenue Limit/Property Tax (continued)

Secured property taxes are recorded as revenue when apportioned, in the fiscal year of the levy. The county apportions secured property tax revenue in accordance with the alternative method of distribution prescribed by Section 4705 of the California Revenue and Taxation Code. This alternate method provides for crediting each applicable fund with its total secured taxes upon completion of the secured tax roll – approximately October 1 of each year.

The County Auditor reports the amount of the District's allocated property tax revenue to the California Department of Education. Property taxes are recorded as local revenue limit sources by the District.

The California Department of Education reduces the District's entitlement by the District's local property tax revenue. The balance is paid from the state General Fund, and is known as the State Apportionment.

The District's Base Revenue Limit is the amount of general purpose tax revenue, per average daily attendance (ADA), that the District is entitled to by law. This amount is multiplied by the second period ADA to derive the District's total entitlement.

J. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

K. New GASB Pronouncements

During the 2007-08 fiscal year, the following GASB Pronouncements became effective for the District.

GASB Statement No. 48 – *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues* was issued in September 2006. This statement establishes criteria that governments use to ascertain whether proceeds received as a lump sum payment in exchange for certain receivables should be reported as a revenue or liability. The District had no such transactions during the year.

GASB Statement No. 50 – *Pension Disclosures – an amendment of GASB Statements No. 25 and No. 27* was issued in May 2007. This statement amends statements 25 and 27 to require defined benefit pension plans and sole and agent employers present certain information related to note disclosures.

APPLE VALLEY UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

NOTE 2 – DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2008 are classified in the accompanying financial statements as follows:

	Governmental Activities	Fiduciary Funds
Cash:		
Cash in county treasury	\$ 36,566,188	\$ -
Cash on hand and in banks	-	506,820
Cash in revolving fund	55,000	-
Subtotal Cash	36,621,188	506,820
Investments:	577,741	-
Total deposits and investments	\$ 37,198,929	\$ 506,820

Policies and Practices

The District is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations.

Cash in County Treasury – The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (Education Code Section 41001). The fair value of the District's investment in the pool is reported in the accounting financial statements at amounts based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are described below:

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Treasury and in Money Market Mutual Fund U.S. Treasury Fund obligations.

APPLE VALLEY UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

NOTE 2 – DEPOSITS AND INVESTMENTS (continued)

Interest Rate Risk (continued)

The District maintains an investment with the San Bernardino County Investment Pool with a fair value of approximately \$36,493,202 and an amortized book value of \$36,566,188. The average weighted maturity for this pool is 341 days. In addition, the District maintains an investment in U.S. Bank money market funds with an amortized cost of \$577,741. Fair value for this investment approximates amortized cost.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The investment with the San Bernardino County Investment Pool is rated AAA/V1+ by Fitch IBCA, AAAs/S1+ by Standard and Poor's, and Aaa/MR1 by Moody's Investor Service.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies.

California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2008, \$316,853 of the District's bank balance of \$792,593 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agency, but not in the name of the District.

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government code. District investments that are greater than 5 percent of total investments are in either an external investment pool or mutual funds and are therefore exempt.

APPLE VALLEY UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2008 consist of the following:

	General Fund	Capital Facilities Fund	Non-Major Governmental Funds	Total Governmental Activities
Federal government				
Categorical aid	\$ 1,593,224	\$ -	\$ 587,892	\$ 2,181,116
State government				
Revenue Limit	5,403,284	-	-	5,403,284
Categorical aid	889,654	-	105,139	994,793
Lottery	929,373	-	-	929,373
Local sources				
Interest	267,295	62,714	106,524	436,533
Other local	292,382	-	49,405	341,787
Total	<u>\$ 9,375,212</u>	<u>\$ 62,714</u>	<u>\$ 848,960</u>	<u>\$ 10,286,886</u>

NOTE 4 - INTERFUND TRANSACTIONS

Interfund activity is reported as loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers among governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

APPLE VALLEY UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

NOTE 4 - INTERFUND TRANSACTIONS (continued)

A. Due From/Due To Other Funds

Individual fund interfund receivable and payable balances as of June 30, 2008 are as follows:

	Due from other funds			TOTAL
	General Fund	Capital Facilities Fund	Other Governmental Funds	
General Fund	\$ -	\$ 4,093	\$ 1,995	\$ 6,088
Other Governmental Funds	174,073	185,553	-	359,626
Total	<u>\$ 174,073</u>	<u>\$ 189,646</u>	<u>\$ 1,995</u>	<u>\$ 365,714</u>
General Fund due from Adult Education Fund to reimburse for meals served			\$ 4,139	
General Fund due from Child Development Fund to reimburse for benefits			18,941	
General Fund due from Building Fund for science class furniture and supplies			21,120	
General Fund due from Cafeteria Fund to reimburse for salaries, benefits, and indirect costs			129,873	
Child Development Fund due from General Fund to reimburse for meals served			1,995	
Capital Facilities Fund due from General Fund for indirect costs			4,093	
Capital Facilities Fund due from Building Fund for service fees			185,553	
Total			<u>\$ 365,714</u>	

B. Interfund Transfers

Interfund transfers consist of operating transfers from funds receiving resources to funds through which the resources are to be expended.

In the 2007-2008 fiscal year, the District made the following interfund transfers:

General Fund transfer to Deferred Maintenance Fund for state match	\$ 597,917
Building Fund transfer to County School Facility Fund for construction projects	1,207,600
County School Facility Fund transfer to Special Reserve Fund for final close-out of project	<u>3,968</u>
Total	<u>\$ 1,809,485</u>

APPLE VALLEY UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

NOTE 5 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2008 is shown below:

	Balance, July 1, 2007	Additions	Deletions	Balance, June 30, 2008
Capital assets not being depreciated:				
Land	\$ 4,320,823	\$ -	\$ -	\$ 4,320,823
Work in progress	13,690,474	9,182,621	20,073,322	2,799,773
Total capital assets not being depreciated	18,011,297	9,182,621	20,073,322	7,120,596
Capital assets being depreciated:				
Improvement of sites	13,358,639	373,702	51,215	13,681,126
Buildings	121,768,392	20,386,452	473,100	141,681,744
Equipment	11,169,977	494,881	252,887	11,411,971
Total capital assets being depreciated	146,297,008	21,255,035	777,202	166,774,841
Accumulated depreciation for:				
Improvement of sites	(9,787,833)	(654,253)	(5,419)	(10,436,667)
Buildings	(24,889,116)	(3,276,527)	(230,850)	(27,934,793)
Equipment	(8,430,255)	(650,392)	(245,255)	(8,835,392)
Total accumulated depreciation	(43,107,204)	(4,581,172)	(481,524)	(47,206,852)
Total capital assets being depreciated, net	103,189,804	16,673,863	295,678	119,567,989
Governmental activities capital assets, net	\$ 121,201,101	\$ 25,856,484	\$ 20,369,000	\$ 126,688,585

NOTE 6 - TAX REVENUE ANTICIPATION NOTES

The District issued \$6,175,000 of Tax Revenue Anticipation Notes dated July 6, 2007. The notes matured on July 1, 2008 and yielded 3.62% interest. The notes were sold by the District to supplement its cash flow. Repayment requirements were that a portion of the principal be set aside in a special fund during 2008 and remain on deposit until the maturity date of the note, at which time they were applied to pay the principal and interest on the notes. Because the set-aside requirements were met, the liability for the notes is considered defeased and is not reflected in these financial statements at June 30, 2008.

NOTE 7 – DESIGNATED FUND BALANCES

The District governing board has designated \$1,468,307 of the ending fund balance in the General Fund for the California School Employees Association (CSEA), Chapter 828 to be used for the purpose described in Article II(B)7(b)4 of the contract dated October 17, 2006.

APPLE VALLEY UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

NOTE 8 – GENERAL LONG-TERM DEBT

A schedule of changes in long-term debt for the year ended June 30, 2008 is shown below.

	Balance, July 1, 2007	Additions	Deductions	Balance, June 30, 2008	Amount Due Within One Year
General Obligation Bonds:					
Principal	\$ 35,138,758	\$ -	\$ 400,000	\$ 34,738,758	\$ 460,000
Accreted Interest Component	145,967	176,205	-	322,172	-
Unamortized Issuance Premium	1,452,531	-	64,203	1,388,328	64,203
Subtotal Bonds	36,737,256	176,205	464,203	36,449,258	524,203
COP - Refunding Issue	6,380,000	-	340,000	6,040,000	350,000
Unamortized Discount	(120,632)	-	(8,617)	(112,015)	(8,617)
Total - COPs	6,259,368	-	331,383	5,927,985	341,383
Loan - Calif. Energy Commission	68,830	-	26,916	41,914	27,734
Capital Leases	192,461	-	85,459	107,002	71,053
Compensated Absences	608,945	-	12,940	596,005	-
Postemployment Benefits	3,037,210	-	504,099	2,533,111	144,769
Totals	\$ 46,904,070	\$ 176,205	\$ 1,425,000	\$ 45,655,275	\$ 1,109,142

A. General Obligation Bonds

Series A

On October 15, 2004, the District issued \$24,999,732 of Series A, Election of 2004 General Obligation Bonds. The bonds were authorized at an election of the registered voters of the District held on March 2, 2004, at which more than 55 percent of the voters authorized the issuance and sale of \$36 million general obligation bonds. The bonds are general obligations of the District. The County is obligated to levy ad valorem taxes upon all property within the District for the payment of interest on and principal of the bonds. The bonds were issued to build new schools, expand and renovate a high school, improve classroom safety, build additional classrooms, upgrade or replace outdated bathrooms, plumbing, and electrical systems, improve computer centers, renovate, acquire, construct, and modernize school facilities.

The bonds were issued as: Current Interest Serial Bonds of \$24,685,000 with stated interest rates ranging between 2.0% and 4.66% and maturing between August 1, 2005 and 2028 and \$314,732 Capital Appreciation Bonds with coupon yields to maturity of 5.46%, and fully maturing on August 1, 2029. At June 30, 2008, the outstanding principal balance of the bonds was \$23,739,732, in addition to \$91,784 of accreted interest on capital appreciation bonds and \$927,553 of unamortized issuance premium.

APPLE VALLEY UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

NOTE 8 – GENERAL LONG-TERM DEBT (continued)

A. General Obligation Bonds (continued)

Series B

On June 6, 2007, the District issued Series B bonds in the amount of \$10,999,026. The bonds were issued as \$8,555,000 Current Interest Bonds with stated interest rates between 4.0% and 5.0% and maturing between August 1, 2011 and 2025 and Capital Appreciation Bonds of \$2,444,026 with interest rates of 5.66% to 5.68% and maturing between August 1, 2026 and 2030. At June 30, 2008, the outstanding principal balance of the bonds was \$10,999,026, in addition \$230,388 of accreted interest on capital appreciation bonds and \$460,775 of unamortized issuance premium.

The requirements to amortize outstanding general obligation bonds are as follows:

Fiscal Year	Principal	Interest	Total
2008-09	\$ 460,000	\$ 1,455,259	\$ 1,915,259
2009-10	525,000	1,441,634	1,966,634
2010-11	600,000	1,421,759	2,021,759
2011-12	665,000	1,396,459	2,061,459
2012-13	765,000	1,367,859	2,132,859
2013-18	5,470,000	6,265,222	11,735,222
2018-23	9,070,000	4,744,403	13,814,404
2023-28	12,769,609	3,553,197	16,322,806
2028-31	4,414,149	6,644,175	11,058,325
Total	<u>\$ 34,738,758</u>	<u>\$ 28,289,967</u>	<u>\$ 63,028,726</u>

B. Certificates of Participation

On July 2, 2003 the District issued \$7,755,000 certificates of participation pursuant to a lease agreement with the Apple Valley Unified School District Public Facilities Corporation dated July 1, 2003. The proceeds of the certificates were used primarily to refund the entire outstanding principal of the certificates that were originally issued on August 1, 1993. The refunding certificates were issued as Serial Certificates with stated interest rates ranging between 2.0% and 4.375% and maturing between September 1, 2003 and 2021. At June 30, 2008 the principal balance outstanding was \$6,040,000, less an unamortized issue discount of \$112,015.

APPLE VALLEY UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

NOTE 8 – GENERAL LONG-TERM DEBT (continued)

B. Certificates of Participation (continued)

The annual requirements to amortize certificates of participation, outstanding as of June 30, 2008, are as follows:

Fiscal Year	Principal	Interest	Total
2008-09	\$ 350,000	\$ 220,662	\$ 570,662
2009-10	355,000	212,065	567,065
2010-11	360,000	202,006	562,006
2011-12	375,000	190,606	565,606
2012-13	385,000	178,109	563,109
2013-18	2,155,000	665,366	2,820,366
2018-22	2,060,000	183,375	2,243,375
Total	<u>\$ 6,040,000</u>	<u>\$ 1,852,189</u>	<u>\$ 7,892,189</u>

C. Capital Leases

The District has entered into lease agreements to lease school buses having a capitalized cost of \$259,286 under agreements that provide for a purchase option of one dollar upon expiration of the lease period. Future minimum lease payments are as follows:

Fiscal Year	Principal	Interest	Total
2008-09	\$ 71,053	\$ 4,365	\$ 75,418
2009-10	35,949	1,528	37,477
Total	<u>\$ 107,002</u>	<u>\$ 5,893</u>	<u>\$ 112,895</u>

The District will receive no sublease rental revenues nor pay any contingent rentals for the equipment.

APPLE VALLEY UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2008

NOTE 8 – GENERAL LONG-TERM DEBT (continued)

D. Loan – California Energy Commission

The District obtained a loan from the California Energy Commission for energy efficiency projects. The loan was for \$199,261 with an immediate discount to \$189,298. The loan is payable in semi-annual installments of \$14,393 including interest at 3%. Following is a schedule of payments required for the loan:

Fiscal Year	Principal	Interest	Total
2008-09	\$ 27,734	\$ 1,052	\$ 28,786
2009-10	14,180	213	14,393
Total	<u>\$ 41,914</u>	<u>\$ 1,265</u>	<u>\$ 43,179</u>

E. Postemployment Benefits Other Than Pension Benefits

The District entered into an agreement with 65 employees for an early retirement program between June 30, 1999 and June 30, 2007. The agreement calls for the District to make payments of \$6,000 up to \$12,000 for up to five years. The remaining long-term liability is \$844,000. The annual cost is expected to be \$446,000.

In addition, the District pays health benefits for certain eligible retirees. At June 30, 2008, there were 13 retirees receiving benefits under this program. The estimated future liability was determined by multiplying the annual cost of providing benefits with an estimated annual ten percent increase by the number of years of remaining eligibility for each retiree. The estimated future liability at June 30, 2008 was \$1,689,111.

NOTE 9 – JOINT VENTURES

The Apple Valley Unified School District participates in joint ventures under joint powers agreements with the Southern California Schools Employee Benefits Association (SCSEBA), and Southern California Schools Risk Management (SCSRM). The relationships between the District and the JPAs are such that the JPAs are not a component unit of the District for financial reporting purposes.

APPLE VALLEY UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

NOTE 9 – JOINT VENTURES (continued)

The JPAs provide property and liability insurance coverage, health and welfare benefits coverage, and workers compensation insurance coverage. The JPAs are governed by a board consisting of a representative from each member district. The governing board controls the operations of its JPAs independent of any influence by the member districts beyond their representation on the governing board. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionately to its participation in the JPAs. Condensed audited financial information for the year ended June 30, 2008 is as follows:

	SCSEBA	SCSRM
Total Assets	\$ 36,822,086	\$ 50,348,470
Total Liabilities	8,595,086	18,214,788
Total Net Assets	<u>28,227,000</u>	<u>32,133,682</u>
Total Revenues	98,969,857	38,374,237
Total Expenditures	<u>99,224,579</u>	<u>29,271,941</u>
Net Increase	<u>\$ (254,722)</u>	<u>\$ 9,102,296</u>

NOTE 10 – RISK MANAGEMENT

Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2008, the District participated in the SCSRM public entity risk pool for property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

Workers' Compensation

For fiscal year 2008, the District participated in the SCSRM JPA for workers compensation, with excess coverage provided by the Schools Excess Liability Fund (SELF) public entity risk pool.

Employee Medical Benefits

The District has contracted with High Desert and Inland Employee/Employer Trust to provide employee medical benefits. The District provides additional life insurance benefits for management employees through SCSEBA.

APPLE VALLEY UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2008

NOTE 11 - COMMITMENTS AND CONTINGENCIES

A. State and Federal Allowances, Awards, and Grants

The District has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursement will not be material.

B. Construction Commitments

At June 30, 2008, the District had commitments with respect to unfinished capital projects of approximately \$1.4 million to be paid from a combination of state and local funds.

C. Litigation

The District is a defendant in a pending liability lawsuit. The outcome of the litigation is unknown at the present time. The maximum possible judgment against the District is unknown.

NOTE 12- EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Certificated employees are members of the State Teachers' Retirement System (STRS), classified employees are members of the Public Employees' Retirement System (PERS), and part-time, seasonal, and temporary employees who are not covered by FICA are covered by APPLE.

Plan Description and Provisions

Public Employees' Retirement System (PERS)

Plan Description

The District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

APPLE VALLEY UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

NOTE 12 - EMPLOYEE RETIREMENT SYSTEMS (continued)

Public Employees' Retirement System (PERS) (continued)

Funding Policy

Active plan members are required to contribute 7.0% of their salary, and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The contribution rate in 2007-08 was 9.306%. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal years ending June 30, 2008, 2007, and 2006 were \$2,541,087, \$2,371,893, and \$2,100,127, respectively, which represents 100% of the required contributions for each fiscal year, which includes the 7% employee share which is paid by the District for classified bargaining unit members.

State Teachers' Retirement System (STRS)

Plan Description

The District contributes to the State Teachers' Retirement System (STRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by STRS. The plan provides retirement, disability and survivor benefits to beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law. STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the STRS annual financial report may be obtained from STRS, 7667 Folsom Boulevard, Sacramento, California 95826.

Funding Policy

Active plan members are required to contribute 8.0% of their salary. The required employer contribution rate for fiscal year 2007-08 was 8.25% of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to STRS for the fiscal years ending June 30, 2008, 2007, and 2006 were \$4,150,249, \$3,964,695, and \$3,289,723, respectively, and equal 100% of the required contributions for each year.

APPLE VALLEY UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

NOTE 12- EMPLOYEE RETIREMENT SYSTEMS (continued)

Alternative Retirement Program (APPLE)

Plan Description

The Alternative Retirement Program is a non-qualified Internal Revenue Code Section 457 plan. The plan covers seasonal and temporary employees and employees not covered by another retirement system, pursuant to the requirements of Internal Revenue Code Section 3121(b)(7)(f). Classified part-time employees hired after June 30, 2003 participate in FICA. Classified part-time employees hired before June 30, 2003 had the option to participate in APPLE or FICA. The benefit provisions and contribution requirements of the plan members and the District are established and may be amended by the ARP Board of Trustees.

Funding Policy

Contributions of 7.5% of covered compensation of eligible employees are made by the employer and the employee. Total contributions, employer and employee combined, were \$41,755 during 2007-2008. The total amount of covered compensation was \$556,735. All eligible employees are covered by the plan and are fully vested. Employer liabilities are limited to the amount of current contributions.

On-Behalf Payments

The District was the recipient of on-behalf payments made by the State of California to STRS for K-12 education. These payments consist of state general fund contributions of approximately \$1.5 million to STRS (4.517% of salaries subject to STRS in 2007-08 and 2.237% of salaries subject to STRS in 2003-04).

NOTE 13 – SUBSEQUENT EVENT

The District issued \$2,625,000 of Tax Revenue Anticipation Notes dated July 1, 2008. The notes mature on July 6, 2009 and yield 1.65% interest. The notes were sold by the District to supplement its cash flow. Repayment requirements are that a portion of the principal be set aside in a special fund during 2009 and remain on deposit until the maturity date of the note, at which time they will be applied to pay the principal and interest on the notes.

The District has filed a letter of intent to purchase land in Apple Valley for a new elementary and middle school at a purchase price of \$924,000.

APPLE VALLEY UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

NOTE 14 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

As of June 30, 2008, expenditures exceeded appropriations in the General Funds as follows:

<u>Fund</u>	<u>Excess Expenditures</u>
General Fund:	
Certificated salaries	\$ 274,586

NOTE 15 – GASB STATEMENT NO. 45

In June 2004, the Governmental Accounting Standards Board (GASB) issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The pronouncement will require employers providing postemployment benefits, commonly referred to as other postemployment benefits, or OPEB, to recognize and account for the costs of providing these benefits on an accrual basis and provide footnote disclosure on the progress toward funding the benefits. The implementation date for this pronouncement will be phased in over three years based upon the entity's revenues. GASB Statement No. 45 will be effective for the Apple Valley Unified School District beginning in the 2008-09 fiscal year. The effect of this pronouncement on the financial condition of the District has not been determined.

Required Supplementary Information

APPLE VALLEY UNIFIED SCHOOL DISTRICT
Budgetary Comparison Schedule – General Fund
For the Year Ended June 30, 2008

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget - Pos (Neg)
	Original	Final		
Revenues				
Revenue Limit Sources	\$ 82,504,786	\$ 81,059,014	\$ 82,054,815	\$ 995,801
Federal	8,386,084	10,272,792	8,844,658	(1,428,134)
Other State	14,722,542	15,951,369	16,740,693	789,324
Other Local	4,066,369	4,608,113	5,869,792	1,261,679
Total Revenues	109,679,781	111,891,288	113,509,958	1,618,670
Expenditures				
Certificated Salaries	49,572,882	50,347,177	50,621,763	(274,586)
Classified Salaries	16,948,157	17,860,790	16,948,403	912,387
Employee Benefits	24,553,977	24,177,746	23,085,444	1,092,302
Books and Supplies	7,621,326	12,686,417	6,003,447	6,682,970
Services and Other Operating Expenditures	10,219,342	11,985,971	10,365,386	1,620,585
Capital Outlay	123,500	1,664,297	454,165	1,210,132
Direct Support/Indirect Costs	(264,144)	(292,340)	(236,112)	56,228
Other Outgo	128,788	128,788	178,860	(50,072)
Total Expenditures	108,903,828	118,558,846	107,421,356	11,249,946
Excess (Deficiency) of Revenues Over (Under) Expenditures	775,953	(6,667,558)	6,088,602	12,868,616
Other Financing Sources and Uses				
Interfund Transfers Out	(597,917)	(597,917)	(597,917)	-
Total Other Financing Sources and Uses	(597,917)	(597,917)	(597,917)	-
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	178,036	(7,265,475)	5,490,685	12,868,616
Fund Balances, July 1, 2007	5,370,986	15,295,588	15,295,588	-
Fund Balances, June 30, 2008	\$ 5,549,022	\$ 8,030,113	\$ 20,786,273	\$ 12,868,616

Supplementary Information Section

APPLE VALLEY UNIFIED SCHOOL DISTRICT
Local Educational Agency Organization Structure
Year Ended June 30, 2008

The Apple Valley Unified School District was established as a unified school district in 1987. The District encompasses approximately 360 square miles in San Bernardino County, including the Town of Apple Valley and unincorporated areas of the County. There were no changes to the District's boundaries during the year. The District is currently operating nine elementary schools (kindergarten through grade 5), one magnet school (grades K-8), three middle schools (grades 6-8), two senior high schools (grades 9-12), one continuation high/adult school and one alternative education center.

GOVERNING BOARD		
Member	Office	Term Expires
Lisa Lawrence	President	November 2010
Richard Sauers	Clerk	November 2010
Wilson So	Member	November 2010
Rob Turner	Member	November 2008
William Van Kirk	Member	November 2008

DISTRICT ADMINISTRATORS

Robert Seevers,
Superintendent

Tom Hoegerman,
Deputy Superintendent

Trenae Nelson,
Assistant Superintendent of Educational Services

Dan Leary,
Assistant Superintendent of Human Resources

Mary Jo Barnes,
Assistant Superintendent of Business Services

APPLE VALLEY UNIFIED SCHOOL DISTRICT
Schedule of Average Daily Attendance
Year Ended June 30, 2008

	Second Period Report	Annual Report
Elementary:		
Kindergarten	901	903
Grades 1 Through 3	2,947	2,937
Grades 4 Through 6	3,100	3,085
Grades 7 and 8	2,175	2,162
Opportunity Schools	6	8
Home and Hospital	9	9
Special Education	359	366
Total Elementary	9,497	9,470
Secondary:		
Grades 9 Through 12, regular classes	4,050	3,998
Continuation Education	124	104
Opportunity Schools	11	9
Home and Hospital	11	11
Special Education	298	290
Nonpublic School	11	11
Total Secondary	4,505	4,423
Classes for Adults:		
Adult Enrolled	16	16
Full Time Independent Study	58	53
Total Adult Classes	74	69
Total Average Daily Attendance	14,076	13,962
	Hours of Attendance	
<u>Supplemental Instruction Hours</u>		
Elementary	66,057	
Secondary	146,388	

See accompanying note to supplementary information.

APPLE VALLEY UNIFIED SCHOOL DISTRICT
Schedule of Instructional Time
Year Ended June 30, 2008

Grade Level	*1982-83 Actual Minutes	1986-87 Minutes Requirement	2007-2008 Actual Minutes	Number of Days Traditional Calendar	Status
Kindergarten	N/A	36,000	36,080	180	Complied
Grade 1	N/A	50,400	51,008	180	Complied
Grade 2	N/A	50,400	51,008	180	Complied
Grade 3	N/A	50,400	51,008	180	Complied
Grade 4	N/A	54,000	54,124	180	Complied
Grade 5	N/A	54,000	54,124	180	Complied
Grade 6	N/A	54,000	61,420	180	Complied
Grade 7	N/A	54,000	61,420	180	Complied
Grade 8	N/A	54,000	61,420	180	Complied
Grade 9	N/A	64,800	67,402	180	Complied
Grade 10	N/A	64,800	67,402	180	Complied
Grade 11	N/A	64,800	67,402	180	Complied
Grade 12	N/A	64,800	67,402	180	Complied

*Per CDE, the District is required only to follow Education Code 46201 minutes requirements since the District unified in July, 1987.

APPLE VALLEY UNIFIED SCHOOL DISTRICT
Schedule of Financial Trends and Analysis
Year Ended June 30, 2008

General Fund	(Budget) 2009***	2008	2007	2006
Revenues and other financing sources	\$ 108,007,788	\$ 113,509,958	\$ 110,705,057	\$ 99,989,302
Expenditures	106,328,034	107,421,356	103,720,104	99,731,005
Other uses and transfers out	525,000	597,917	551,417	-
Total outgo	106,853,034	108,019,273	104,271,521	99,731,005
Change in fund balance (deficit)	1,154,754	5,490,685	6,433,536	2,258,297
Ending fund balance	\$ 21,941,028	\$ 20,786,273	\$ 15,295,588	\$ 8,310,635
Available reserves*	\$ 11,754,997	\$ 10,553,784	\$ 7,321,378	\$ 5,292,248
Available reserves as a percentage of total outgo	11.0%	9.8%	7.0%	5.3%
Total long-term debt	\$ 44,546,213	\$ 45,655,275	\$ 46,904,070	\$ 47,937,013
Average daily attendance at P-2**	14,002	14,002	14,124	13,922

The General Fund balance has increased by \$12,499,198 over the past two years. The fiscal year 2008-09 adopted budget projects an increase of \$1,154,754. For a district of this size, the state recommends available reserves of at least 3% of total general fund expenditures, transfers out, and other uses (total outgo).

The District has not incurred operating deficits in any of the past three years, and anticipates incurring an operating surplus during the 2008-09 fiscal year. The long-term debt has decreased by \$2,281,738 over the past two years.

Average daily attendance has increased by 80 over the past two years. No change in ADA is projected during fiscal year 2008-09.

* Available reserves consist of all undesignated fund balances and all funds designated for economic uncertainty in the General Fund.

**Excludes adult education and county operated programs ADA.

*** Adopted September 2008.

See accompanying note to supplementary information.

APPLE VALLEY UNIFIED SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2008

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Number	Pass-Through Entity Identifying Number	Federal Expenditures
Federal Programs:			
U.S. Department of Agriculture:			
Passed through California Dept. of Education (CDE):			
Needy School Breakfast	10.553	13390	\$ 745,720
National School Lunch	10.555	13523	2,743,667
USDA Reduced Price Commodities	10.565	N/A	257,889
Total U.S. Department of Agriculture			<u>3,747,276</u>
U.S. Department of Defense:			
Reserve Officer Training Corps	12.000	N/A	100,606
Total U.S. Department of Defense			<u>100,606</u>
U.S. Department of Education:			
Passed through California Dept. of Education (CDE):			
No Child Left Behind Act (NCLB)			
Title I, Part A, Low Income and Neglected	84.010	13797	3,923,997
Title II, Part A, Teacher Quality	84.367	14341	684,711
Title II, Part D, Enhancing Education Through Technology	84.318	14334	42,668
Title III - Limited English Proficiency	84.365	10084	23,196
Title IV, Part A, Safe and Drug Free Schools	84.186	14347	78,938
Title IV, Part B, 21st Century Community Learning	84.287	14349	397,853
Title V, Part A, Innovative Education Strategies	84.298	14354	26,429
Vocational and Applied Technology Secondary IC	84.048	13924	131,979
E-Rate	84.330	N/A	91,253
Passed through Desert/Mountain SELPA:			
Individuals with Disabilities Education Act (IDEA):			
Basic Local Assistance Entitlement, Part B	84.027	13379	2,884,447
Total U.S. Department of Education			<u>8,285,471</u>
U.S. Department of Labor:			
Passed through County of San Bernardino Jobs and employment services:			
Workforce Investment Act	17.258	10055	175,634
Total U.S. Department of Labor			<u>175,634</u>
U.S. Department of Health & Human Services:			
Passed through California Dept. of Education (CDE):			
Child Development, Quality Improvement	93.575	13979	7,804
Child Development, Infant and Toddler Programs	93.575	14679	2,316
Passed through California Dept of Health Services:			
Medi-Cal Billing Option	93.778	10013	145,034
Medi-Cal Administration	93.778	10013	137,913
Total U.S. Department of Health & Human Services			<u>293,067</u>
Total Expenditures of Federal Awards			<u>\$ 12,602,054</u>

No CA/EMA grant.

See accompanying note to supplementary information.

APPLE VALLEY UNIFIED SCHOOL DISTRICT
Reconciliation of Annual Financial and Budget Report with Audited Financial
Statements
Year Ended June 30, 2008

	Long-Term Liabilities
June 30, 2008 annual financial and budget report total liabilities	<u>\$ 43,936,158</u>
Adjustments and reclassifications:	
Increase (decrease) in total liabilities:	
General obligation bond debt underreported	1,710,500
Certificate of participation underreported	<u>8,617</u>
Net adjustments and reclassifications	<u>1,719,117</u>
June 30, 2008, audited financial statement long-term liabilities	<u><u>\$ 45,655,275</u></u>

See accompanying note to supplementary information.

APPLE VALLEY UNIFIED SCHOOL DISTRICT
Schedule of Excess Sick Leave
Year Ended June 30, 2008

Section 19855.3 (a)(3)(c) disclosure

Apple Valley Unified School District provides more than 12 sick leave days in a school year to the following groups of employees who are CalSTRS members:

1. Superintendent
2. Deputy Superintendent
3. Assistant Superintendents
4. Principals
5. Assistant Principals
6. Psychologists
7. Directors

APPLE VALLEY UNIFIED SCHOOL DISTRICT
Schedule of Charter Schools
Year Ended June 30, 2008

<u>Charter School</u>	<u>Included in District Audit?</u>
Academy for Academic Excellence	No

APPLE VALLEY UNIFIED SCHOOL DISTRICT

Note to the Supplementary Information

June 30, 2008

NOTE 1 – PURPOSE OF SCHEDULES

Schedule of Average Daily Attendance (ADA)

Average daily attendance (ADA) is a measurement of the number of pupils attending classes of the District. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds are made to school districts. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

Schedule of Instructional Time

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of Education Code Sections 46200 through 46206.

Districts must maintain their instructional minutes at either the 1982-83 actual minutes or the 1986-87 requirement, whichever is greater, as required by Education Code section 46201.

Schedule of Financial Trends and Analysis

This schedule discloses the District's financial trends by displaying past years' data along with current year budget information. These financial trend disclosures are used to evaluate the District's ability to continue as a going concern for a reasonable period of time.

Schedule of Expenditures of Federal Awards

The accompanying schedule of expenditures of Federal awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the United States of America Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

Subrecipients

Of the Federal expenditures presented in the schedule, the District provided no Federal awards to subrecipients.

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Unaudited Actual Financial Report to the audited financial statements.

Schedule of Charter Schools

This schedule lists all charter schools chartered by the District, and displays information for each charter school and whether or not the charter school is included in the District audit.

Schedule of Excess Sick Leave

This schedule provides information on whether the District grants excess sick leave, as that term is defined in subdivision (c) of Education Code Section 22170.5, to employees who are members of the California State Teachers Retirement System.

Other Independent Auditors' Reports



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Board of Trustees
Apple Valley Unified School District
Apple Valley, California

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

We have audited the financial statements of Apple Valley Unified School District as of and for the year ended June 30, 2008, and have issued our report thereon dated November 12, 2008. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America.

Jeff Nigro, CPA
Elizabeth Nigro, CPA
Christy White, CPA

Internal Control Over Financial Reporting

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In planning and performing our audit, we considered Apple Valley Unified School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Apple Valley Unified School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Apple Valley Unified School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliability in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be presented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Apple Valley Unified School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which are described in Section IV of the Findings and Questioned Costs.

This report is intended solely for the information and use of the Board, management, the California Department of Education, the State Controller's Office, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than the specified parties.



Murrieta, California
November 12, 2008



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Board of Trustees
Apple Valley Unified School District
Apple Valley, California

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Compliance

We have audited the compliance of Apple Valley Unified School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. Apple Valley Unified School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Apple Valley Unified School District's management. Our responsibility is to express an opinion on Apple Valley Unified School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Apple Valley Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Apple Valley Unified School District's compliance with those requirements.

In our opinion, Apple Valley Unified School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

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Internal Control Over Compliance

The management of Apple Valley Unified School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Apple Valley Unified School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A control deficiency in the District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board, management, the California Department of Education, the State Controller's Office, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Murrieta, California
November 12, 2008



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Board of Trustees
Apple Valley Unified School District
Apple Valley, California

AUDITORS' REPORT ON STATE COMPLIANCE

We have audited the basic financial statements of the Apple Valley Unified School District, as of and for the year ended June 30, 2008, and have issued our report thereon dated November 12, 2008. Our audit was made in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America; and *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2007-08* published by the Education Audit Appeals Panel. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The District's management is responsible for the District's compliance with laws and regulations. In connection with the audit referred to above, we selected and tested transactions and records to determine the District's compliance with the laws and regulations applicable to the following items:

Description	Procedures in Audit Guide	Procedures Performed
Attendance Accounting:		
Attendance Reporting	8	Yes
Kindergarten Continuance	3	Yes
Independent Study	23	Yes
Continuation Education	10	Yes
Adult Education	9	No (see below)
Regional Occupational Centers and Programs	6	Not applicable
Instructional Time:		
School Districts	6	Yes
County Offices of Education	3	Not applicable
Community Day Schools	9	Not applicable
Morgan-Hart Class Size Reduction Program	7	Yes

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Description	Procedures in Audit Guide	Procedures Performed
Instructional Materials:		
General Requirements	12	Yes
K-8 only	1	Yes
Grades 9-12 only	1	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive Program	4	Not applicable
Gann Limit Calculation	1	Yes
School Construction Funds:		
School District Bonds	3	Yes
State School Facilities Funds	1	Yes
Excess Sick Leave	2	Yes
Notice of Right to Elect CalSTRS Membership	1	Yes
Proposition 20 Lottery Funds	2	Yes
State Lottery Funds	2	Yes
California School Age Families Education (Cal-SAFE) Program	3	Not applicable
School Accountability Report Card	3	Yes
Mathematics and Reading Professional Development	4	Not applicable
Class Size Reduction Program:		
General Requirements	7	Yes
Option One	3	Yes
Option Two	4	Not applicable
Districts with only one school serving K-3	4	Not applicable
After School Education and Safety Program:		
General Requirements	4	Yes
After School	4	Yes
Before School	5	Not applicable
Charter Schools:		
Contemporaneous Records of Attendance	1	Not applicable
Mode of Instruction	1	Not applicable
Nonclassroom-Based Instruction/Independent Study	15	Not applicable
Determination of Funding for Nonclassroom-Based Instruction	3	Not applicable
Annual Instructional Minutes – Classroom Based	3	Not applicable

We did not perform testing of adult education attendance because the ADA was below the level that requires testing.

Based on our audit, we found that, for the items tested, the Apple Valley Unified School District complied with the state laws and regulations referred to above, except as described in Finding 2008-2. Further, based on our examination, for items not tested, nothing came to our attention to indicate that the Apple Valley Unified School District had not complied with the state laws and regulations, except as described in Finding 2008-2.

This report is intended solely for the information and use of the Board, management, State Controller's Office, Department of Finance, Department of Education, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Najm Najm & White, PC

Murrieta, California
November 12, 2008

Findings and Questioned Costs Section

APPLE VALLEY UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
Year Ended June 30, 2008

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(s) identified not considered to be material weaknesses?	Yes
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(s) identified not considered to be material weaknesses?	No
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	No

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I, Part A, Low Income and Neglected
84.287	Title IV, Part B, 21st Century Community Learning

Dollar threshold used to distinguish between Type A and Type B programs:	\$ 378,062
Auditee qualified as low-risk auditee?	Yes

State Awards

Internal control over state programs:	
Material weakness(es) identified?	No
Significant deficiency(s) identified not considered to be material weaknesses?	Yes
Type of auditor's report issued on compliance for state programs:	Qualified

APPLE VALLEY UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
Year Ended June 30, 2008

Section II – Financial Statement Findings

This section identifies the reportable conditions, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*. Pursuant to Assembly Bill (AB) 3627, all audit findings must be identified as one or more of the following categories:

<u>Five Digit Code</u>	<u>AB 3627 Finding Types</u>
10000	Attendance
20000	Inventory of Equipment
30000	Internal Control
40000	State Compliance
41000	CalSTRS
50000	Federal Compliance
60000	Miscellaneous
61000	Classroom Teacher Salaries
70000	Instructional Materials
71000	Teacher Misassignments
72000	School Accountability Report Card

Finding 2008-1: Associated Student Body (ASB) Fund Accounting (30000)

Apple Valley Middle School: In our test of cash receipts, we noted two of five cash receipts that did not have an audit trail to link cash collections to the bank deposits. These deficiencies could lead to defalcation or misrepresentation of the ASB's financial condition.

Recommendation: Controls over cash receipting need to be established in order to strengthen internal controls over cash receipting.

District Response: In 2006, the TRACKS program for cash handling was provided to all Associated Student Body (ASB) organizations within the district. It was the intent of the implementation to provide an automated program to track cash handling. In this particular instance, fund raising revenues were entered into the TRACKS system as a total amount after two individuals checked each order for accuracy, rather than individually for each participant. Copies of the fund raising sales forms were not maintained in the ASB office as they were returned to each participant with their order.

The ASB bookkeeper will enter each participant's sales receipts individually for each fundraiser and issue individual receipts.

APPLE VALLEY UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
Year Ended June 30, 2008

Section III – Federal Award Findings and Questioned Costs

This section identifies the audit findings required to be reported by Circular A-133, Section .510(a) (e.g., reportable conditions, material weaknesses, and instances of noncompliance, including questioned costs).

There were no federal award findings or questioned costs in 2007-08.

APPLE VALLEY UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
Year Ended June 30, 2008

Section IV – State Award Findings and Questioned Costs

This section identifies the audit findings pertaining to noncompliance with state program rules and regulations.

Finding 2008-2: After School Education & Safety Program (ASES) (40000)

Criteria: The District reports the attendance for the after school base grant on a semi-annual basis. The data reported should include the number of students served for each school and supported by written records that document pupil participation.

Condition: The District was unable to provide appropriate supporting documentation to support the number of pupils claimed as attending the ASES program at Yucca Loma Elementary School.

Questioned Costs: 9,690 pupils claimed for Yucca Loma during the first semi-annual period

Cause: unknown

Context: Of the seven schools participating in the ASES program, Yucca Loma Elementary was unable to provide documentation to support the pupils claimed.

Effect: Under/over reporting pupils attending the ASES program.

Recommendation: The District needs to locate the supporting documentation to substantiate the number of students claimed. The District should implement and monitor pupil attendance for the ASES program at all school sites it is offered.

District Response: Yucca Loma underreported the ASES attendance for the first semi-annual period; however, the attendance reported exceeded the 85% targeted attendance required by the State of California. It has been determined that it is not necessary to file a revised attendance report as it will not change the Yucca Loma's targeted attendance requirement.

The District has implemented a uniform attendance system for all schools participating in the After School Education & Safety Program (ASES). All administrators of the programs have met with district office staff for training on the uniform attendance system.

APPLE VALLEY UNIFIED SCHOOL DISTRICT
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2008

Original Finding No.	Finding	Code	Recommendation	Current Status
<i>Finding 2007-1: Associated Student Body (ASB) Fund Accounting</i>	<p>Several deficiencies were noted at each individual ASB account. These deficiencies could lead to misrepresentation of the ASB's financial condition and/or misappropriation of funds.</p> <p><i>Apple Valley Middle:</i> In our test of 10 cash disbursements tested, one was lacking appropriate approval by the Student Council prior to expenditure.</p> <p>The cash receipt system is inadequate. In our sample of six, four cash receipts did not have an audit trail that links cash collections to bank deposits. These controls need to be established in order to strengthen internal control over cash receipts.</p> <p><i>Vista Campana Middle:</i> In our sample of 20 cash disbursements tested, one was lacking appropriate documentation. We also noted four cash disbursements from 2005 recorded in the Bank Reconciliation report. These disbursements should be investigated and cleared if necessary from the outstanding checks in the reconciliation report.</p> <p><i>Sitting Bull Middle:</i> In our sample of 10 cash disbursements, we found three that were lacking supporting documentation and five that the amount on the check did not match the supporting documentations (invoice) provided</p> <p>In our sample of 10 cash receipts, one did not have an audit trail that links cash collections to the bank deposits. Without these internal controls present, it is possible for unauthorized purchases to be made and go undetected.</p>	30000	The District has taken steps to improve the fiscal accountability of the ASB accounts at each of the schools. However, there needs to be continuous training and monitoring in order to ensure that ASB activity is properly reported.	Implemented, however, see finding 2008-1.
				Implemented
				Implemented

APPLE VALLEY UNIFIED SCHOOL DISTRICT
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2008

Original Finding No.	Finding	Code	Recommendation	Current Status
Finding 2007-1: <i>Associated Student Body (ASB) Fund Accounting (continued)</i>	<p><u>Vanguard Preparatory:</u> In our sample of 15 cash disbursement tested, 12 were lacking appropriate approval by the Student Council prior to expenditure. In addition, three did not have proper supporting documentation. Without these controls present, it is possible for unauthorized purchases to be made and go undetected.</p> <p>The cash receipt system is inadequate. In our sample of six, five cash receipts did not have an audit trail that links cash collections to the bank deposits. This control needs to be established in order to strengthen internal controls over cash receipts. The use of the new Blue Bear software should help improve this area.</p> <p><u>Apple Valley High:</u> In our sample of 20 cash disbursements tested, one was lacking appropriate supporting approval from the Student Council. Although this appears to be an isolated case, greater care should be taken to prevent such exceptions.</p> <p><u>Granite Hills High School:</u> In our sample of 10 cash disbursements, we found five that were lacking the Student Council's approval and one that did not have supporting documentation (invoice).</p> <p>In our sample of five cash receipts, we found one deposit was not made in a timely manner to the bank. The deposit was for \$17,603 and it was deposit one month after cash received. Without these controls present, it is possible for unauthorized purchases to be made and go undetected.</p>			Implemented
				Implemented
				Implemented

